

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

Credit Crunch?

One of the principal concerns overhanging the financial markets is an uneasy feeling that today's commercial bank lending slowdown could evolve into a full-fledged, economy-crippling credit crunch. Characterized by the unavailability of credit at virtually any reasonable price, the occurrence of just such a situation is believed to be entirely possible, if not already in progress. Indeed, spurred by credit quality wariness, stricter capital standards, and regulatory admonitions to tighten lending practices, commercial banks have become increasingly reluctant lenders, even going so far as to generally prefer adding to their holdings of Federal government securities, rather than approving new loans.

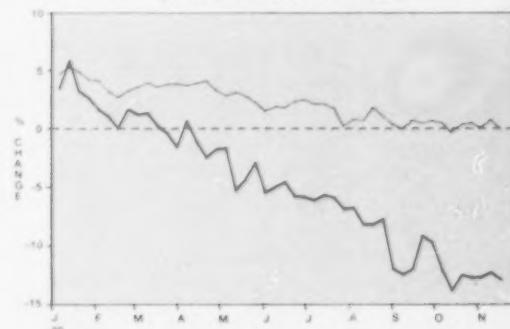
But, whether or not this behavior is unhealthy, as some suggest, or national in scope, as others fear, is arguable. For with the economy declining—as even Federal Reserve Chairman Alan Greenspan now admits—and a recession in the wings (Financial Digest—November 19, 1990), it would be highly unusual if both lenders and borrowers did not turn more cautious and, for the moment at least, there is a fair degree of selectivity in which areas, and businesses have been hardest hit by credit limitations.

Unbridled credit restraint undoubtedly sows the seeds of a deep and prolonged business downturn. However, evidence of such a development, at this juncture, is limited. Take, for example, the pronounced slowdown in commercial and industrial (C & I) loan activity at the nation's large banking institutions, the type of short-term business borrowing which is not only sensitive to shifting economic conditions, but also lender receptivity to new loan requests. This C & I slowdown, and the tapering of real estate-related lending, are perhaps the most often cited symptoms of today's perceived credit crunch.

Commercial and industrial loans outstanding have actually contracted a bit over the past year, falling by a shade more than \$60 million. So, too, at a time when real estate woes are multiplying, and builders are financially squeezed, real estate lending has slowed markedly, barely budging over the past three months. This com-

bination is believed to be magnifying all of the nation's ills, throttling everything from business spending on jobs and capital equipment to residential construction to household spending with the proceeds of home equity loans.

C & I LOANS OUTSTANDING:
BOSTON DISTRICT (THICK) VS. NATIONWIDE (THIN)
(52-WEEK PERCENT CHANGES)



Source: Federal Reserve Board

Northeast Blues

Whether this qualifies as a full-fledged crunch is problematic. The overall credit contraction is spread quite unevenly throughout the country, and the regionally-spotted pattern of today's business downturn is mirrored in the lending totals of the various regional Federal Reserve Districts. The Boston Fed District, for example, finds itself at the epicenter of the nation's business downdraft. Not surprisingly, the banking numbers reflect this. Over the past year, commercial and industrial loan footings at the region's large banks have tumbled by 13 percent—underperforming the nation by a wide margin—while real estate outstandings have slumped by 20 percent (see chart). Nor does the softness stop at New England's borders, spilling over into the adjacent Middle Atlantic region. Hard-hit by the same combination of factors which have flattened New England—Wall Street tremors, defense industry cutbacks and high-technology woes—the New York and Philadelphia Districts, too, have experienced a runoff of C & I footings.

In large chunks of the rest of the country, the situation is not nearly as glum, and bank lending and business borrowing have held up reasonably well. Few signs of a crunch exist in the Southeast, where banks in both the Richmond and Atlanta regions have recorded generally

Manufacturers
Hanover
Economics
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buoyant short-term business loan growth over the past year. In the Midwest, their counterparts in Minneapolis and Chicago have posted modest gains, and even the Dallas region, after enduring a prolonged lending free fall, is experiencing a modest snapback in banking activity. In fact, the Northeast blues are so pervasive that they are overwhelming the nationwide C & I loan totals. Stripping away just the Boston plunge changes a \$63 million nationwide drop in such loans outstanding over the past year into a nearly \$3 billion increase.

Balance Sheet Repairs In Progress

In order to pre-empt credit crunch perceptions

from becoming reality, the Fed has stepped up its reserve provisioning to the banking system, an abrupt departure from its reserve draining actions of a year earlier. While this has yet to stimulate a dramatic upturn in new lending, it has facilitated a surge in bank purchases of Federal securities. These have risen by better than 20 percent over the past year, prompting some analysts to argue that this, too, is symptomatic of credit crunch behavior. However, exactly the same thing has happened several times in the past without triggering undue credit restraint, most recently in the mid 1980s when economic skies darkened, borrowers became scarce and securities purchases soared.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits \$100,000 or more Weekly Reporting Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/14/90)	206,993	- 1,115	- 11,345
New York City (11/21/90)	34,942	- 302	- 6,862
Commercial Paper (11/21/90)	554,051	- 370	+ 37,985

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/14/90)	318,494	- 835	- 63
New York City (11/21/90)	57,884	- 168	- 2,244
Total Loans and Leases Gross Adjusted			
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/14/90)	1,020,538	+ 2,128	+ 26,825
New York City (11/21/90)	179,350	+ 9	- 3,408

Financial Markets

	Friday 11/30/90	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.22%	- .03	- .54
180-Day Bills†	7.34	+ .03	- .39
Longest Bills†	7.29	+ .04	- .35
Recent Issues:			
7½s 11/30/92	7.51	NA	
8½s 9/15/94	7.82	+ .06	
8½s 11/15/00	8.26	- 0-	
8½s 8/15/20	8.41	- .01	
Municipals:			
Bond Buyer—20 Bond Index* (11/29/90)	7.08%	- .05	+ .04
Blue List Total (\$ Million)	\$1,281	+ \$117	+ \$ 104
30-Day Visible Supply (\$ Million)	\$2,186	- \$130	- \$1,014
Total	\$3,467	- \$ 13	- \$ 910
Corporates:			
Moody's Aa Composite (11/29/90)	9.52%	- 0-	- .39
30-Day Visible Supply (\$ Million)	\$ 550	- \$100	- \$1,515
Stocks:			
Dow-Jones Averages:			
Industrials	2,559.65	+ 32.42	- 188.00
Transportation	853.00	+ 8.88	- 349.35
Utilities	212.09	+ 3.09	- 15.72
65 Stocks	892.93	+ 11.26	- 142.04
N.Y.S.E. Composite Index	176.06	+ 3.67	- 17.60
N.Y.S.E. Avg. Daily Vol. for Week (000's)	151,832	+ 25,299	- 8,928

*34% Taxable equivalent 10.73%.

† Bond equivalent.

International Rates

	Friday 11/30/90	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	7.56%	7.56%
1 month	8.75	7.81
3 month	8.31	8.00
6 month	8.19	7.88
1 year	8.00	7.81

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/16/90)	Currency Per U.S. \$	Week Ago
Belgium	31.02	30.49
Canada	1.1665	1.1575
France	5.0730	4.9855
Germany	1.5025	1.4768
Italy	1127.50	1110.20
Japan	133.25	127.63
Mexico	2937.80	2933.60
Netherlands	1.6950	1.6660
South Korea	699.65	704.43
Switzerland	1.2825	1.2470
Taiwan	26.74	26.73
U.K.*	1.9405	1.9650

*U.S. \$ per U.K. pound

	Change Since Week Ago	2/27/85
MH TRADE-WEIGHTED DOLLAR (11/30/90)	+1.5%	+2.4%
(Adjusted for Inflation)		

If credit crunch conditions do exist, they are generally regionally confined, and anecdotal evidence places the brunt on small- and medium-sized firms, as well as those with debt-laden balance sheets. While this diagnosis understandably brings little solace to such firms, which generate nearly three quarters of the nation's new jobs, or borrowers located in the Northeast, it does say something about the prognosis for the economy.

With the relaxed lending standards of the 1980s giving way to the tightened practices of the 1990s, what is currently underway is not so much a traditional, business-crippling credit

crunch as it is a "balance sheet crunch"—in today's riskier environment, highly-leveraged firms and individuals find their access to credit restricted, and may continue to do so while their finances are being repaired. Rather than an unhealthy development, this process actually enhances the economy's stability. It also means that credit crunch perceptions will linger, notwithstanding determined Fed efforts to pump up bank reserves, or policymaker entreaties for more lending. The eventual benefits, however, will pay significant dividends, since a strengthened business and financial community will set the stage for a well-balanced economic recovery.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/28/90	\$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	248.742	- 4.788	+21.838
Loans to Depository Inst.	.209	+ .031	- .472
Float	.388	- .037	- .592
Total Reserve Bank Credit	288.589	+ .670	+24.083
Treasury Deposits with			
Federal Reserve Banks	4.894	- .481	- .198
Currency in Circulation	280.075	+ 1.170	+26.434
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	245.965	+ 4.009	+12.941
Member Bank Reserves:	11/28/90		
Total Reserves Held	60.061	- .052	+ .422
Excess (Deficiency)	1.055	+ .065	+ .046
Net Free Reserves	.886	+ .153	+ .295

Monetary Aggregates †

		† % Change Since 3 Months Ago*	Year Ago
M1 (11/19/90)	823.6	+ 3.8	+ 4.2
M2 (11/19/90)	3,319.0	+ 2.8	+ 3.9
M3 (11/19/90)	4,083.0	+ 0.2	+ 1.5
Domestic Nonfinancial Debt (2nd Q'90)	10,126.6	+ 6.3	+ 7.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/30/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.02%	6.99%	6.83%
* Federal Agencies	7.45	7.40	7.45
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.48	8.48	8.64
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.35	8.25	8.10
‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.65%	Jan.	8.70%
15- 29 days	7.58	Feb.	8.20
30- 59 days	7.11	Mar.	8.10
60- 89 days	7.90	Apr.	8.00
90-179 days	7.68	May	7.85
180-239 days	7.40	Jun.	7.77
240-270 days	7.40		
‡ Industrial Paper—Prime			
30- 89 days	8.18%	† Federal Funds Effective Rate	7.50%
90-120 days	8.00		
‡ Discount basis.	* Subject to availability.	† Estimated.	

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'90	\$ 5,521 r	\$ 5,443
Gross National Product (1982 Dollars)*	3rd Q'90	\$ 4,173 r	\$ 4,155
Percent Change, Annual Rate	3rd Q'90	1.7 r	0.4
Change in Consumer Prices*	Oct '90	7.2 %	9.6%
Change in MH Cost of Living Index*	Oct '90	3.6 % r	4.8%
Change in Producer Prices*	Oct '90	13.2 %	19.2%
Civilian Employment (Thousands of Persons) †	Oct '90	117,711	117,898
Unemployment as % of Civilian Labor Force †	Oct '90	5.7%	5.7%
Personal Income*	Oct '90n	\$ 4,705	\$ 4,699r
Leading Indicators Composite Index (1967=100) †	Oct '90n	141.6	143.3
Industrial Production Index (1977=100) †	Oct '90	109.6	110.5
Net Change in Consumer Installment Credit †	Sep '90	\$ 3.00	\$ 3.06
U.S. Merchandise Trade Balance †	Sep '90	- \$ 9.41	- \$ 9.73
Plant and Equipment Expenditures*	4th Q'90	\$ 538.6(a)	\$ 532.5(a)
Private Housing Starts (Thousands of Units)*	Oct '90n	1,041	1,107r
New Construction Expenditures*	Sep '90	\$ 428.7	\$ 441.1
Total Business Inventories †	Sep '90	\$ 811.5	\$ 807.5
Total Business Sales †	Sep '90	\$ 548.7	\$ 551.5

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.



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